One Step Further Towards Global Plutocracy

Why Donald Trump's Withdrawal from OECD Tax Plans Weakens the Path Towards Global Economic Justice

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On his first day in office, US President Donald Trump signed dozens of Executive Orders on various issues. Among those receiving little public attention was the announcement of the US withdrawal from the OECD project on reforming global corporate taxation. This step, although expected, is a major setback for the only global plan aimed at increasing economic fairness that has any real chance of success.

The OECD's "Global Tax Deal" and International Tax Fairness

Since 2013, the OECD and its member states have worked towards increasing global tax fairness by fighting the practice of shifting profits by multinational businesses, promoting tax transparency, and fostering cooperation between tax authorities.

Since 2021, the work has concentrated on the so-called "Two Pillar Solution", a comprehensive package of projects intended to adjust the current international taxation system. Despite its importance, it has received relatively little public and scholarly attention. As it stands, it is easy for multinational companies to pay very little in taxes, legally. Digital businesses with users and customers all around the world, such as Meta and Amazon, allocate their enormous profits to company offices located in low-tax jurisdictions. These profits are only taxed there, irrespective of the fact that their customers live all around the world. Thus, states like Germany do not tax these companies, even though they make profits with German customers, using German internet infrastructure. The existence of low-tax states – tax havens – and the resulting race-to-the-bottom of corporate taxation, have led to a world characterized by unfair allocation of tax revenue and very low effective taxation. The major consequence is rising global inequality, coupled with a rise in US billionaire wealth (see also this recent blog symposium on Verfassungsblog).

The Two-Pillar Solution, termed "Global Tax Deal" by Trump, follows two major goals: First, it aims to reallocate taxing rights for large multinational corporations towards so-called market states – states like Germany and France, where digital businesses from the US and elsewhere make high profits without paying corporate taxes. In exchange, states commit to removing or abstaining from enacting unilateral "digital services taxes" ("Pillar One"). According to OECD estimates, this should lead to a reallocation of about 200 billion USD per year in existing taxing rights.

Second, it introduced a global minimum effective corporate tax rate of 15 percent ("Pillar Two"). According to the OECD, this minimum tax could raise between 155 and 192 billion USD in additional global revenue per year.

These proposals were bold, but they managed to receive widespread support from 145 states because everyone has something to gain by having their voice heard: The EU and other high-tax, high-income jurisdictions want to tax US digital giants and fight tax havens. The US wants its digital champions to be taxed as little as possible and thus avoid national digital services taxes. Developing countries, currently the biggest losers of the global tax-avoidance landscape, would benefit from additional taxing rights and a stop to the race to the bottom. The project is well underway, with the global minimum tax of 15 percent already accepted and implemented by several countries, and the multilateral convention on Pillar One almost finalized. Strong US support might have facilitated a quick political breakthrough.

The Implication of Trump's Withdrawal

Because of the United States' economic role and the share of large multinational companies headquartered there, US participation in the whole project is indispensable. Without the US participating, the multilateral convention of Pillar One ("MLC") not only makes little sense politically and economically, but also cannot come into force: According to Article 48 MLC, the entry into force is dependent on the ratification of states set out in a table in the convention's Annex I, which represent a certain economic relevance. Without the US, the threshold required by Article 48 cannot be met—even with all other states combined.

The Trump presidency also does not bode well for the global efforts to establish a minimum tax, as the US withdrawal will significantly lower the incentive for other states to follow through.

In his memorandum, Trump threatens other states with retaliatory measures, should they "have any tax rules in place, or are likely to put tax rules in place, that are extraterritorial or disproportionately affect American companies". In his memorandum on trade, Trump instructs his cabinet to "investigate whether any foreign country subjects United States citizens or corporations to discriminatory or extraterritorial taxes", followed by a reference to section 891 of the US Code – which foresees the doubling of tax rates for citizens and corporations of such countries. Not only do these threats sabotage the OECD's efforts, but they also substantially raise the costs for those states wishing to follow through. Thus, should the EU, for instance, enact a digital services tax on Meta, Amazon, and others (as was proposed and is currently on hold), the US might answer with punitive tariffs. Such tariffs would likely be in violation of WTO law – but the WTO dispute settlement mechanism is currently defunct, again, mostly due to the US.

A Step Backwards

The main profiteers of Trump's withdrawal are US billionaires, major stockowners, and – ironically – China. While Trump's circle will welcome the step, the withdrawal further weakens US soft power, alienates the US from its allies and developing countries alike, increases global inequality and thus, enhances China's leverage. It might also shift international discussions on taxation away from the Western-dominated OECD towards the UN, where African countries have pushed for negotiations on an international taxation treaty and where China holds far more influence.

The global tax system is in dire need of reform. Currently, it is one of the major drivers of inequality. It favors those global asset managers, CEOs and multinational corporations that retain unaccountable power. While far from perfect – criticized for a lack of ambition, bureaucratic mechanisms and complicated language –, the OECD tax plan was a unique opportunity to take a step towards global economic fairness, based on effective multilateralism and international law. With Trump's withdrawal, hope in the international rule of law dwindles further.

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